DOCUMENT RESUME

ED 268 255 CE 043 940

AUTHOR	Rosser, John
TITLE	The National Economy. Supervising: Economic and Financial Aspects. The Choice Series #74. A Self Learning Opportunity.
INSTITUTION	Northern Regional Management Centre, Washington (England).
SPONS AGENCY	Manpower Services Commission, London (England).
REPORT NO	ISBN-0-948023-66-X
PUB DATE	85
NOTE	87p.; For related documents, see ED 266 310-312 and CE 043 921-948.
AVAILABLE FROM	Northern Regional Management Centre, Derwent House, Washington Town Centre, Washington, Tyne & Wear NE38 7ST, England ($15.00 plus postage; 15% discount on 50, 25% on 100; includes audiotape).
PUB TYPE	Guides - Classroom Use - Materials (For Learner) (051)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Adult Education; Behavioral Objectives; Check Lists; Economic Factors; Economics; *Economics Education; Financial Support; Government Role; Investment; Learning Activities; *Management Development; *Monetary Systems; Postsecondary Education; Private Agencies; Public Agencies; *Public Policy; *Supervisory Training
IDENTIFIERS	Great Britain; *Private Sector; *Public Sector

ABSTRACT

This student guide is intended to assist persons employed as supervisors in understanding the main sectors in the national economy. Discussed in the first four sections are the following topics: the economic system (economic decisions and types of economies), the public sector (extent and control of the public sector, finance of the public sector, and provision of public services); the private sector (types of private sector organizations, the stock exchange, and sources of investment finance for the private company); and government economic policy (general economic aims and fiscal, monetary, and income policy). Each of these sections contains an introduction, sections of instructional text that are interspersed with reinforcing learning activities, and a section summary. The fifth part of the guide includes a series of performance checks (an end check, a tutor check, and a work-based project). Concluding the guide is a unit review that reviews the objectives addressed in the guide, describes related extension courses, and lists recommended reference materials. (MN)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED268255

An Open Tech Project

SUPERVISING

ECONOMIC AND FINANCIAL ASPECTS

74: The National Economy

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

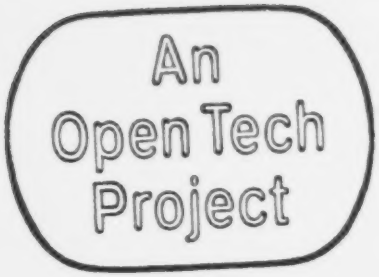
"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

H Pardue

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

74: THE NATIONAL ECONOMY

John Rosser



The CHOICE programme is an Open Tech sponsored project managed by the Northern Regional Management Centre in conjunction with the Northern Consortium of Colleges and the National Examinations Board for Supervisory Studies.

© Crown Copyright 1985 Published by permission of the Controller of Her Majesty's Stationery Office.

ISBN 0 948023 66 X

First published in the U K - 1985

Northern Regional Management Centre
Derwent House, Washington Town Centre
Washington, Tyne & Wear NE38 7ST

This Work was produced under an Open Tech contract with the Manpower Services Commission. The views expressed are those of the authors and do not necessarily reflect those of the MSC or any Government Department.

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without permission in writing from the publisher.

John Rosser
The National Economy (Number 74 in the CHOICE SERIES of learning units)

Series Editor: Harry V Pardue
Northern Regional Management Centre.

CONTENTS Page

PART A - THE ECONOMIC SYSTEM

1 Introduction 2

2 Economic Decisions 2

3 Types of Economy 7

4 Summary 13

PART B - THE PUBLIC SECTOR

1 Introduction 14

2 The Extent and Control of the Public Sector 14

3 Finance of the Public Sector 16

4 Provision of Public Services 23

5 Summary 31

PART C - THE PRIVATE SECTOR

1 Introduction 32

2 Types of Private Sector Organisations 32

3 The Stock Exchange 36

4 Sources of Investment Finance for the Private Company 40

5 Summary 43

PART D - GOVERNMENT ECONOMIC POLICY

1 Introduction 44

2 General Economic Aims 44

3 Fiscal Policy 45

4 Monetary Policy 55

5 Incomes Policy 61

6 Summary 66

PART E - PERFORMANCE CHECKS

1 End Check 67

2 Tutor Check 72

3 Work-Based Project 74

PART F - UNIT REVIEW

1 Return to Objectives 75

2 Extensions 77

3 References 79

WORKING GUIDE TO THIS UNIT IN YOUR DEVELOPMENT PROGRAMME

This Unit is now your personal property - it's not for handing back to your training officer or to a tutor. It is your working book.

The Contents will increase in value to you each time you write on one of its pages. This is a working text for your personal notes - without notes its value is limited.

Qualifications forget about certificates and diplomas - you don't need them for this programme. What you do need is the wish:-

* to do your job better
* for personal development

Your study time is really up to you - we guess you will need about 8 hours in total. But it's your time - spend as long as you like.

How am I doing? you can judge for yourself by checking out how well you cope with the tasks we call Activities and Self Checks which occur throughout the unit. You can also get the Tutor Check and/or the Work Based Project to your tutor for an unbiased view of your progress.

Work Pace it's really up to you and depends on your interest. However, if you do well on the Activities and Self Checks, you could afford to speed up a little. Of course, if you don't do as well as you expect then you could slow down a little or flick back into the unit for a quick review of the more difficult ideas.

When in doubt - ask or seek help from:

* your family and friends
* colleagues at work
* your company training staff
* other open learners
* your tutor, by phone, by a visit to your support centre or by dropping your tutor a line through the post.

Don't worry if what you learn doesn't seem to be of use to you now, remember that times change - it may be useful one day. Anyway, just knowing more improves personal confidence.

So now make a start:-

74: THE NATIONAL ECONOMY by John Rosser

ABOUT THIS UNIT

We are continually bombarded through the newspapers, radio and television with pronouncements on the current state of the UK Economy. Politicians and economic experts discuss at great length issues such as 'the balance of payments', 'budget deficits' and 'the stirling exchange rate'. It therefore may appear that 'the Economy' has little real effect on our own way of life, but this is far from the truth. The way our nation's money is handled and our competitive position to other nations are matters of extreme and vital importance to us all. We only need to look at other aspects of our economy like inflation and unemployment to realise this.

We understand that what we call 'the National Economy' is really the total sum of all we do at home and at work that has to do with money. When we think about it that means everything!

In this unit we will look at the basic structure of the UK economy and see how it is managed so that enough of the goods and services which you and I demand are produced. We'll also appreciate that running an economy is not an exact science so there are many alternative ways of managing it; but they are all aimed at the same objective - a thriving, efficient economy.

IN THIS UNIT WE WILL:

* identify the structure of the UK Economy

* examine how the private and public sectors contribute to the economy

* examine the role government plays in controlling the economy

* Investigate the impact of government economic policy decisions on you and your workplace.

AUDIO TAPE Side 1

Before you continue through the unit, you should listen to side 1 of the audio tape that accompanies the unit. You will find it useful if you refer to the unit objectives shown below whilst you listen to the tape. You may wish to make the objectives clearer to yourself by making a note or two on the page as you listen.

OBJECTIVES

When you have completed this unit you you will be BETTER ABLE to:

* identify how our National Economy works

* examine the contributions made to the economy by the public and private sectors

* identify how the economic decisions of government affect the operation of business organisations

* identify how we are affected by the economic policy decisions made by government.

PART A - THE ECONOMIC SYSTEM

1 Introduction

Although in this unit we're going to be mainly concerned with the UK economy, we need first to understand a bit about how any economic system works.

The study of economics deals with how to allocate scarce resources to the production of goods and services and how they choose to distribute the goods and services once they are produced.

As a supervisor you're probably used to making the most of limited resources such as people and supplies.

2 Economic Decisions

ACTIVITY 1
Time guide
3 mins

Jot down three resources which an economy may find are in short supply.

Here are a few suggestions, though you may well have thought of more.

* Labour
* Money for day-to-day spending
* Money for capital investment
* Land
* Machinery and plant.

We could say that anything which we could class as an economic resource is in short supply if it is much in demand.

So now we can perhaps define what the study of economics is all about.

ACTIVITY 2
Time guide
1 min

Can you fill in the missing word in this statement?

Societies' wants exceed the _____ available to provide for those wants and as a result economic decisions have to be made.

I hope you have come up with the word 'resources' or something very close.

REFERENCE 1
Page 79

A clear discussion of what economics is about and the world concept of economic choice is given in 'Modern Economics' by J Harvey.

This is our first important point that the decisions which have to be made about the allocation of scarce resources are ECONOMIC DECISIONS.

There are, of course, economic decisions being taken continually, not only by governments, but also by companies and by private individuals such as me and you.

Let's look for a moment at the sort of economic decisions that you and I make.

We have limited resources, or at least my resources are certainly limited! We can only use the resources we have available to satisfy our many and varied wants. We are all, therefore, because there is a limit to our available resources, having to make choices.

ACTIVITY 3
Time guide
5 mins

Jot down two major economic decisions you have made during the past twelve months. Note down the item you purchased and also the items you could not buy as a result of your choice.

Did buy	So could not buy
_____	_____
_____	_____

Perhaps your economic decisions are similar to these:

* Buying a car instead of moving house.

* Decorating the house instead of buying new clothes.

* Going out for a meal instead of buying a new pair of shoes.

* Buying a video instead of new furniture.

It's quite possible that your examples are quite different from these.

That's because the economic decisions you make cover all aspects of your life and the choices you have to make are innumerable.

We can see, anyway, that the cost of purchasing anything has two aspects:

* the money we pay out

* the things we can no longer buy because we don't have the resources to do so any more.

Economists call this second cost the

OPPORTUNITY COST

Choosing one product or service inevitably means having less, or nothing, of something else.

Buy a video - you can't afford a new suit.

Go to the football match - you can't go to the pub.

The cost to you of the video is

what you paid for it + the other things you gave up to buy it.

ACTIVITY 4
Time guide
10 mins

Here is a list of items displayed in a clothes shop window.

Dress £40	Evening Dress £100	Shirt £40
Blouse £20	Coat £115	Gloves £15
Shoes £25	Jacket £40.	

Assuming you only have enough money to buy the following items what is the opportunity cost in this window display of

a) the dress? * _____

b) the evening dress? * _____

c) the coat? * _____

a) The dress costs £40 which means that you will not have the resources to buy goods to the value of £40 ie the shoes and gloves, unless you can acquire some more resources.

b) Purchasing the evening dress which costs £100 means that you will not be able to buy the shirt, the blouse and the jacket.

c) Buying the coat costing £115 has an opportunity cost of the evening dress and the gloves.

These are economic decisions and, although we've only been talking about fairly small purchases made by individuals, the principle is the same when we talk about economic decisions made by businesses or by countries.

In any economic system, economic choices have to be made in these three areas.

a) What to produce - what sort of products and services should be produced by the system?

b) How to produce - should the products and services be produced by large or small scale businesses and by the public or private sector?

c) Who receives - who should receive the goods and services once they've been produced.

ACTIVITY 5
Time guide
7 mins

Here is a list of choices.

Decide which of the three areas of choice we have just mentioned each one could be allocated to and write the appropriate letter a, b or c at the end of each statement.

Remember, you don't have to make the actual choice between the alternatives given (that's a life's work for some of them!) just decide which area of choice they fall into.

1 Should the government spend more on education than on defence? ____

2 Should the government raise the level of taxation to pay for higher social security benefits? ____

3 Should companies concentrate on the export market rather than the home market? ____

4 Should women go out to work to help pay for labour saving devices in the home or stay at home and do the housework manually? ____

5 Should a motor manufacturer produce more vans than cars? ____

6 Should a firm employ more people to meet an increased demand for its products or services or should it give its existing workforce increased overtime? ____

I expect you found that that took a bit of thinking about. Here are my ideas to compare with yours.

Choices 1 and 5 are choices dealing with what to produce and therefore relate to decisions which fall into type a.

Choices 4 and 6 are choices dealing with how to produce and therefore relate to decisions which fall into type b.

Choices 2 and 3 are choices dealing with who should receive the goods and services produced and therefore relate to decisions which fall into type c.

I hope you can see that these are the types of decisions which are continually having to be made by and within the structure of the national economy.

3 Types of Economy

Now let's look at the different types of structure which various societies have adopted to help them make the right economic decisions.

There are three main types:

planned economy

free market economy

mixed economy.

In a planned economy, the government controls and finances all business enterprises and plans how resources will be shared out amongst the population.

In a free market economy, on the other hand, the state does not intervene in the allocation of resources, this being left to the business world to sort out.

ACTIVITY 6
Time guide
2 mins

Jot down one country which you think operates a planned economy and one which operates a free market economy.

Planned economy _____

Free market economy _____

Perhaps the examples which spring most readily to mind are:

planned economy: any of the countries which make up the USSR or the Eastern bloc countries such as Hungary, Poland, Czechoslovakia

free market economy: USA.

Although these broadly fit into one type of economy or the other, we have to accept that no economy is totally free market or totally planned.

For example, the USA does have state involvement in providing some very limited social welfare such as unemployment benefits and health care.

ACTIVITY 7
Time guide
2 mins

Jot down one other important and highly expensive area which is paid for out of public funds in the USA.

* _____

You may have thought of several examples but defence is the major area which immediately comes to my mind.

Similarly, the USSR, although it's a planned economy, does have people who produce goods and services on a private profit-making basis although this is only a very small part of the total USSR economy.

This leaves us with the third type of economy from our original list:

the mixed economy

The UK economy is an example of a mixed economy. Many of its services are provided by public organisations but private individuals and private organisations still finance and control a substantial part of the resources in the country. In other words we have a 'mix' between private and public sectors in the provision of the goods and services we demand.

The composition of this mix changes as industries grow and decline. The contribution which any one of them makes to the national economy also changes over time. For example, the North Sea Oil and gas industries on which our economy is heavily dependent now has grown from almost nothing in the last twenty years and, we have to accept, will have declined again by the end of the century.

Governments may favour major industries such as ship building or steel manufacturing being state-controlled or in private hands depending on the importance of the particular industry to the economy as a whole and on the political thinking of the government in power.

The debate on just how much of the UK economy should be publicly owned and how much left in the hands of the private individual is a continuing one, the emphasis shifting from private to public ownership and back again depending on the colour of the political party in power.

Clearly, there's no best solution but there are some advantages and disadvantages to each system.

ACTIVITY 8
Time guide
15 mins

This is an activity you need to take your time over to decide on your considered opinion.

Here are a list of ten statements about what happens in an economic system. Five of them I have grouped as advantages of a particular system and five I have grouped as disadvantages.

In the appropriate column to the right of the statements tick whether you think each statement applies most to a Planned, Free Market or Mixed Economy.

ADVANTAGES

	PLANNED	FREE MARKET	MIXED
a Resources can be directed easily to areas of greatest need.			
b The consumer has the widest choice of goods and services.			
c The state can control and change inequalities in pay fairly easily.			
d The government can act to stop one business cornering a market and pushing prices up unfairly.			
e Resources are automatically directed to their most profitable use.			

DISADVANTAGES

	PLANNED	FREE MARKET	MIXED
a People's incomes will be very unequal.			
b The system involves a lot of 'red tape' and doesn't encourage people to try out new ideas.			
c It's believed that the market will eventually solve the problem of unemployment.			
d In some areas of the economy freedom of choice is restricted.			
e The state is not a good judge of what the consumer wants.			

Here's how I would class those advantages and disadvantages for you to compare with your own version.

ADVANTAGES

	PLANNED	FREE MARKET	MIXED
a Resources can be directed easily to areas of greatest need.	/		
b The consumer has the widest choice of goods and services.		/	
c The state can control and change inequalities in pay fairly easily.	/		
d The government can act to stop one business cornering a market and pushing prices up unfairly.			/
e Resources are automatically directed to their most profitable use.		/	

DISADVANTAGES

	PLANNED	FREE MARKET	MIXED
a People's incomes will be very unequal.		/	
b The system involves a lot of 'red tape' and doesn't encourage people to try out new ideas.	/		
c It's believed that the market will eventually solve the problem of unemployment.		/	
d In <u>some</u> areas of the economy freedom of choice is restricted.			/
e The state is not a good judge of what the consumer wants.	/		

I hope you have found that we're broadly in agreement on the advantages and disadvantages of the three types of economic system we've looked at. Perhaps it will help if I add a comment on one or two of them to support the choices I've made.

ADVANTAGES

b The consumer has the widest choice of goods and services in a free market economy because businesses are free to meet any demand people make and also to create a market for their goods and services by promoting them - through advertising for example.

d Mixed economics do try to prevent private monopolies becoming established. A monopoly means that one business is the only supplier of particular goods or service and, since they have no competition, they could, if they wanted to, exploit the situation by pushing up prices unreasonably or by refusing to pay a fair price to firms who depended on them for business. In mixed economies governments have an early warning system which lets them know if a monopoly is likely to operate against the public interest.

e In a free market, people are interested first and foremost im making a profit so they are likely to transfer resources from an unprofitable enterprise to a profitable one and are at liberty to do so.

DISADVANTAGES

a People's incomes are likely to be very unequal in free market economies. People who have skills which are greatly in demand can command high salaries and those whose skills is not in demand cannot.

d Freedom of choice in some areas is limited in a mixed economy where services are provided by the public sector.

I hope we can agree now that there are several different ways in which a society can run an economic system to provide what it wants and that there are advantages and disadvantages to all of them.

We've seen that the system we've chosen in the UK is a mixed economy in which the public and private sectors each contribute goods and services.

In the next part of the unit we'll look in more detail at how they both contribute to our economy. First, however, you might like to try this self check before we move on.

SELF CHECK 1
Time guide
10 mins

The following questions and statements are to do with the economic system.

Respond by completing each sentence with a suitable word or words.

a The study of economics deals with how societies allocate scarce _____ to the production of _____ and _____.

b The decisions which have to be made are called _____ _____.

c The cost of purchasing any service or product has two aspects: the first is the money required to purchase it and the second is the _____ cost.

d There are three areas where economic choice has to be made; these are:

* _____
* _____
* _____

e There are three types of economy commonly identified, these are

* _____
* _____
* _____

The UK economy is a _____

f A mixed economy operates with both the _____ sector and the _____ sector contributing significantly towards the production of goods and services.

g A planned economy does not encourage _____.

h A free market economy leads to _____ incomes.

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. a) The study of economics deals with how societies allocate scarce resources to the production of goods and services. b) The decisions which have to be made about what to provide or not are called economic decisions. c) The second aspect of the cost of purchasing anything is the opportunity cost - the cost of what you can't have as a result of buying something else. d) The three areas where economic choice has to be made are deciding what to produce, how to produce and who should receive the goods and services. e) The three types of economy we looked at were a planned economy, a free market economy and a mixed economy. The UK economy is a mixed economy in which (f) the public and private sectors both contribute to the production of goods and services. g) a planned economy does not encourage 'initiative' or thinking for yourself. h) A free market economy leads to unequal incomes because those whose skills are in demand can expect high salaries but others cannot.

4 Summary

* The wants of the individual and society exceed the ability to satisfy those wants.

* So ECONOMIC DECISIONS have to be made on the best use of limited resources.

* The cost of purchasing something = the money it costs to acquire + the OPPORTUNITY COST (the cost of what you can't have because you've bought something else)

* Three types of economy:

  PLANNED

  FREE MARKET

  MIXED.

PART B - THE PUBLIC SECTOR

1 Introduction

If we go back into history governments were just concerned with keeping the peace both within the country and with the neighbouring country. In return for the security it provided, the government of the day was able to raise taxes from the people. Today the situation is very different and in most advanced industrial countries, governments now control, through the machinery of both central and local governments, large sections of the economy. These government services provide not only security but welfare services and also provide, through nationalised industries, a range of goods and services which it has been decided are produced more effectively in this way.

As we saw in part A, there's not necessarily one best way of doing things and opinions will always vary about how much and what is best provided by the public sector. This is really a political argument which we are not concerned with.

What is certain is that the UK economy will have a substantial public sector for as long as we can foresee and, to understand how the UK economy works, we need to look at how the public sector functions and how it is financed.

2 The Extent and Control of the Public Sector

The services provided by the public sector are controlled by all sorts of organisations - too many to list here. But we can group them into three distinct types:

Central Government

Local Government

Nationalised Industries (Public Corporations)

ACTIVITY 9
Time guide
10 mins

Here is a list of services currently provided by public sector organisations.

Decide whether you think each one is provided by

Central Government
Local Government
Public Corporations

and tick the appropriate column on the right.

	CENTRAL GOVERNMENT	LOCAL GOVERNMENT	PUBLIC CORPORATION
National Health Service			
Supply of Coal			
Provision of rail travel			
Education service			
Provision of Defence			
Supply of Gas			
Provision of Policing			
Supply of Electricity			
Provision of Prisons			
Social Security Payments			
Refuse Collection			
Provision of Postal Services			

Here is my response to that activity for you to compare with yours.

	CENTRAL GOVERNMENT	LOCAL GOVERNMENT	PUBLIC CORPORATION
National Health Service	/		
Supply of Coal			/
Provision of rail travel			/
Education service		/	
Provision of Defence	/		
Supply of Gas			/
Provision of Policing		/	
Supply of Electricity			/
Provision of Prisons	/		
Social Security Payments	/		
Refuse Collection		/	
Provision of Postal Services			/

You may have found this took a bit of thinking about. The items on this list are just the tip of the iceberg: it certainly makes you realise the wide variety of services provided by the public sector through the three main types of organisation.

Although, as we've seen, local government and public corporations are responsible for some major services and can, in law, decide how much to spend on each of the services for which they are responsible, central government holds the purse strings.

Through its economic policy, central government can impose its wishes on local authorities and nationalised industries. We'll look at this in more detail later.

3 Finance of the Public Sector

You only have to look at your pay slip to be painfully aware of how the resources are found to finance public sector services such as those we looked at in the last activity.

ACTIVITY 10
Time guide
1 min

How are public sector services largely financed?

* _____

_____

They are financed mainly through the taxation system of which individual income tax is only a part.

Let's look in more detail now at taxation as a whole.

Adam Smith, a prominent nineteenth century economist, insisted that there should be four basic principles of taxation policy.

* Taxation should be equal.

He didn't mean by that that everybody should pay the same amount but that everybody should pay the same proportion of their wages in tax.

* Taxes should be certain.

That means that you should know what tax you will have to pay and how much rather than it being demanded more or less at random.

* Collection should be convenient.

* Taxes should be economic.

That means that they shouldn't cost more to collect than they actually raise.

These rules are still true today but a modern Chancellor of the Exchequer would probably want to add two further principles.

_____

ACTIVITY 11
Time guide
3 mins

Jot down one further rule about taxation which you think the current Chancellor of the Exchequer might want to add to the four broad principles we've looked at.

* _____

_____

_____

This is quite a hard one and you may have thought of a number of ideas - it's a very complex subject.

However, these are the two further principles I would suggest.

* Taxation policy should not discourage people from working.

* Taxation policy must be in line with government policy.

There are various ways in which tax on what people earn can be levied on them as individuals.

We'll look at three.

* Everybody pays the same amount, say £500 per head. This means that people on low incomes pay a higher proportion of their income in tax than people who earn more. This is called a REGRESSIVE TAX.

* Everybody pays the same proportion of their income, say 25%. This is called a PROPORTIONAL TAX.

* The amount of tax is adjusted so that the more you earn the greater proportion of your income you pay and the tax burden falls most heavily on the rich. This is called a PROGRESSIVE TAX.

ACTIVITY 12
Time guide
4 mins

Here is a chart which shows what would happen to three different people's income paying each of the three types of income tax we've mentioned.

TYPE OF TAX	Mr A Income - £8,000 pa		Mr B Income - £16,000 pa		Mr C Income - £36,000 pa	
	Tax	Balance to spend	Tax	Balance to spend	Tax	Balance to spend
Regressive - £500/head	£ 500	£7,500	£ 500	£15,500	£ 500	£35,500
Proportional - 25%	£2,000	£6,000	£4,000	£12,000	£ 9,000	£27,000
Progressive	£ 800	£7,200	£3,000	£13,000	£10,000	£26,000

Which system do you think is used in the UK - regressive, proportional or progressive? _____

Which system, in your opinion, is fairest? _____

The UK uses a progressive system of taxation, with the burden of tax falling most heavily on the rich.

This system is thought to be the fairest although there is some argument as to how far you can go without discouraging people from taking on more demanding and more highly paid jobs because of the higher tax they would have to pay as their income rose.

REFERENCE 2
Page 79

We can see how the progressive tax system works from this activity.

ACTIVITY 13
Time guide
4 mins

Tick whichever seems to you the correct response to the following three questions.

a The basic rate of income tax in the UK is

25% ☐

30% ☐

33% ☐

b The highest rate of income tax levied in the UK is

50% ☐

60% ☐

65% ☐

85% ☐

c Higher tax rates are

Rates at which tax is paid on income above a certain level ☐

Rates at which tax is paid on income above a certain level after the deduction of allowances ☐

Rates at which we all pay tax after each budget. ☐

The basic rate of income tax in the UK is 30%. The highest rate of income tax levied in the UK is 60%. Higher tax rates are rates at which tax is paid on income above a certain level after the deduction of allowances.

Everyone in the UK who is liable to pay tax pays income tax at a standard rate of 30% after allowances have been deducted from his income. Once income reaches a certain level tax falls due at a higher rate for every extra pound earned. These higher tax levels are adjusted at regular intervals to take account of inflation. This is usually done by the Chancellor of the Exchequer at Budget time.

The fact that higher income earners pay higher rates of tax on income above a certain level does ensure that the more prosperous amongst us pay a higher proportion of their income in tax.

As we've already said, income tax is a direct personal tax on tax payer's income. As we all know, it's difficult to avoid!

But income tax isn't the only kind of tax we pay. Let's now have a look at

INDIRECT TAXES

They are called indirect taxes because they are not levied directly on the money we earn but on the activities and services we use our money to buy for ourselves. One example is Value Added tax which is levied on many goods and services such as haircuts, car services or dry cleaning.

ACTIVITY 14
Time guide
10 mins

Here is a table showing the major taxes levied in the UK. Think about each one and, if you can, decide whether it is a progressive tax or a regressive tax and what it is levied on.

Don't worry if you can't do them all. Just miss out those you can't do and go on to the next. I've done the first three to get you started.

Name of Tax	Type of Tax	Progressive/ Regressive	Levied on
Income Tax	Direct	Progressive	Incomes
Capital Gains Tax	Direct	Progresive	Financial Gains from Sale of Capital
Capital Transfer Tax	Direct	Progressive	Gifts
Value Added Tax	Indirect		
Rates	Indirect		
Corporation Tax	Direct		
Excise Duties	Indirect		
Road Tax	Indirect		

Here is how I would complete that table.

Name of Tax	Type of Tax	Progressive/ Regressive	Levied on
Income Tax	Direct	Progressive	Incomes
Capital Gains Tax	Direct	Progresive	Financial Gains from Sale of Capital
Capital Transfer Tax	Direct	Progressive	Gifts
Value Added Tax	Indirect	Regressive	Sale of goods and Services
Rates	Indirect	Regressive	Property and Land
Corporation Tax	Direct	Progressive	Profits
Excise Duties	Indirect	Regressive	Petrol, Tobacco, Alcohol
Road Tax	Indirect	Regressive	Motor Vehicles

ACTIVITY 15
Time guide
2 mins

You will notice from the last activity that indirect taxes tend to be regressive.

Jot down in a few words why this should be so.

* _____

The answer to this lies in the nature of the tax - we all pay 15% VAT on the goods and services we purchase whether we are rich or poor.

What therefore are the advantages of an indirect tax thought to be?

ACTIVITY 16
Time guide
1 min

Do you know how much you paid in indirect taxation last month? YES/NO

The chances are that you answered 'no' to that.

Most indirect taxes can be spread widely throughout the community and the tax is often paid without the taxpayer being conscious of it. Without the revenue from indirect taxes such as VAT, petrol, alcohol and tobacco tax the government would find it impossible to raise sufficient revenue to finance its activities.

SELF CHECK 2
Time guide 5 mins

Think about the following statements about the effects of indirect taxation and decide whether each of them is true or false.

a Indirect taxation discourages people from working to earn money.

TRUE/FALSE

b Indirect taxation falls more heavily on the poor than on the rich.

TRUE/FALSE

c Indirect taxation can be inflationary - that is, it can increase prices and so put up the cost of living.

TRUE/FALSE

d Indirect taxation is progressive. TRUE/FALSE

e If indirect taxation was not levied, direct taxes such as income tax would have to be raised to an unacceptably high level.

TRUE/FALSE

f Indirect taxation can be used to discourage people from buying things which the government thinks are undesirable.

TRUE/FALSE

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. Statements a and d are false. Indirect taxation doesn't reduce people's take-home pay so it doesn't discourage people from working to earn money to spend. As we said earlier, people are often not aware how much indirect taxation (in VAT etc) they are paying.

Indirect taxation is regressive because everybody pays the same rate of tax regardless of income. The only way to avoid paying VAT, for instance, is by not buying the goods or service on which it is levied.

I hope we can agree that the other four statements about indirect taxation are all true.

4 Provision of Public Services

I mentioned briefly at the beginning of this part of the unit that the public sector was controlled by central government while local government and public corporations acted largely as agents for central government. Let's now look in a little more detail at the services provided by each and decide how these specific services are financed.

4.1 Local Government

Local government is an important provider of public services. When you vote in a local government election you are voting into power people who control a wide variety of important services.

ACTIVITY 17
Time guide
3 mins

Jot down four services which are provided by local government. (We mentioned some in Activity 9 if you're stuck for ideas.)

* _____
* _____
* _____
* _____

Here are the areas in which a local authority will finance and provide services.

* Education
* Environmental Services - refuse collection, public health standards
* Housing
* Social Services - social workers, home helps etc
* Recreation and Leisure
* Road maintenance and lighting
* Transport
* Police
* Fire services
* Consumer Protection Services.

EXTENSION 1
Page 77

We haven't the scope in this unit to go into the various types of local authority and the services each type provides but if you would like to know more, you might like to take up this extension.

Finance for local authority services comes from a number of different sources. I dare say that you sometimes feel, if you are a ratepayer, that you are keeping your local authority going single-handed, particularly when the rate demand drops on the mat.

In fact income from rates very rarely exceeds one third of a typical local authority's income.

ACTIVITY 18
Time guide
3 mins

Jot down two other possible sources of local authority finance - apart from you!

* _____

* _____

Sources of local authority finance include, as well as domestic rates (those we pay on our houses):

* Industrial and Commercial rates on offices, shops, factories etc.

* Rents from council housing, offices and workshops.

* Government Grants (the Rate Support Grant).

* Income from services provided such as leisure centres, hire of halls etc.

There is much discussion of how the rating system could be reformed - possibly in favour of a local income tax. Not surprisingly, there are drawbacks to all the alternatives and it seems likely that rate demands will drop on our doormats for some time yet.

4.2 Central Government

Now let's look at the services provided by Central Government.

ACTIVITY 19
Time guide
5 mins

Spend a few minutes thinking about the services which are provided by Central Government. Jot down four examples.

* _____

* _____

* _____

* _____

Here on the left is a list of services provided by Central Government. On the right is the list we drew up before of Local Government services.

SERVICES PROVIDED BY:

CENTRAL GOVERNMENT	LOCAL GOVERNMENT
Defence	Education
Social Security payments	Environmental Services -
a) State pensions b) Social Security benefits c) Unemployment benefits	refuse collection public health housing
National Health Service	Social Services -
Law and Order - inclusing prisons	social workers home helps etc
Motorway construction	Recreation and Leisure
Grants and financial incentives to industry	Road maintenance and lighting
Incentives to create employment via the Manpower Services Commission	Transport
	Police
	Fire Services
	Consumer Protection Services

ACTIVITY 20
Time guide
10 mins

In recent years Central Government spending has increased considerably while Local Government spending has fallen. Look at the two lists of services I have provided and jot down why you think this has happened.

* _____

_____

_____

_____

You may have thought of several reasons for this. The main reasons why the areas covered by Central Government spending have demanded more resources are:

* Higher unemployment has led to higher spending on unemployment benefits

* Pension payments have kept pace with inflation whilst an ageing population has led to more people drawing pensions and social security benefits

* Spending on defence and health has increased because of government commitments in these areas.

As a result of this a government committed to a tight control of public spending has had to make cuts elsewhere and reductions in spending have taken place in virtually all local authority areas of provision with housing taking the most severe cuts.

ACTIVITY 21
Time guide
5 mins

The government has had to make economic choices with regard to its spending plans. Jot down what you think has been the OPPORTUNITY COST of increased spending on Defence, Health and Social Security payments and Pensions.

* _____

* _____

The opportunity cost has been a reduction in almost all the local authority services. We've already mentioned housing: education is another important example.

4.3 Public Corporations

The nationalised industries still control a significant proportion of UK industrial production.

Here is a list of some, though by no means all, of the nationalised corporations.

British Rail

Central Electricity Generating Board

National Coal Board

British Steel Corporation

Electricity Council

British Waterways Board

British Leyland

British Gas Corporation

British Shipbuilders

If nationalised industries make a loss the government may subsidise them so that they can stay in business.

ACTIVITY 22
Time guide
3 mins

Jot down three reasons why the government is likely to subsidise loss-making nationalised industries.

* _____

_____

* _____

_____

* _____

_____

There are all sorts of reasons for this. You probably thought of some of these.

* To ensure the survival of a basic industry upon which we all depend, such as the generation of electricity.

* To ensure that the rest of industry has a guaranteed supply of an essential product such as coal.

* To maintain employment in the industry, particularly in periods of high unemployment.

* To ensure a gradual rundown of a once important industry such as coal-mining, steel manufacturing and ship building.

* To ensure the survival of an important company such as British Leyland until it has regained its feet and can make its way in the private sector.

What the government is trying to do by subsidy is to create the right climate for the nationalised industry or company to perform efficiently and, they hope, profitably, rather than continually baling out loss-making industries.

In recent years, however, we've seen some important publicly-owned concerns sold by the government. This process is called PRIVATISATION.

ACTIVITY 23
Time guide
3 mins

Jot down two organisations which you know of which have been privatised in recent years.

* _____

* _____

Here is a list of the organisations which spring immediately to any mind.

British National Oil Corporation

British Telecom

Amersham International

Jaguar

British Gas - oil interests only.

This is not an exhaustive list and you may have thought of others which I have missed.

Why does the government decide to do this and what is the effect of privatisation on the economy?

Perhaps you can answer that for yourself by the next activity.

ACTIVITY 24
Time guide
5 mins

Here is a list of statements about privatisation. Read them through carefully and decide whether each of them is true or false.

a) Privatisation raises money for the government which can be used to offset government spending.

TRUE/FALSE

b) Privatisation curbs the power of the trade unions. TRUE/FALSE

c) Privatisation leads to greater efficiency. TRUE/FALSE

d) Privatisation increases the government's revenue in the future.

TRUE/FALSE

e) Privatisation encourages the people who work there to do so more effectively.

TRUE/FALSE

Supporters of privatisation would say that statements a) c) and e) are true and are the main arguments in favour of privatisation. There is no reason to suppose that b) 'privatisation curbs the power of the unions' is true in practice though it is a commonly expressed fear. Statement d) is certainly false. Although privatisation raises money for the government in the short term, when they sell it, they forego any income which it might raise in the future.

Before moving on let's do a self check which draws together what we've said so far.

SELF CHECK 3 Time guide 10 mins

a) The control of the services provided by the public sector are provided by organisations belonging to one of three types - these are

* _____
* _____
* _____

Respond by completing each sentence with a suitable word or words.

b) The two types of taxation levied in the UK are _____ and _____ taxation.

c) Income tax is a form of _____ taxation.

d) VAT is an _____ form of taxation.

e) The finance for local authority services is raised from five difference sources. These are _____, _____, _____, _____ and _____.

f) Defence spending is financed through _____ government spending.

g) The government is willing to subsidise nationalised industries.

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. a) The three types of organisation are Central Government, local government and public corporations. b) Direct and indirect taxation are the two types of taxation levied in the UK. c) and d) Income tax is a direct tax paid on the money we earn, whereas VAT is an indirect tax levied on goods and services which we choose to buy. e) Local authority services are financed by domestic rates, industrial and commercial rates, rents, government grants and income from the services provided. f) Defence spending is financed through central government spending. g) One of the reasons the government is willing to subsidise nationalised industries is to ensure that the economy has a guaranteed supply of an essential or important product.

5 Summary

The PUBLIC SECTOR is the part of the economy financed and run by:

CENTRAL GOVERNMENT

LOCAL GOVERNMENT

PUBLIC CORPORATIONS

The public sector is financed primarily through taxation.

Taxation is either:

DIRECT - eg income tax - progressive

INDIRECT - eg VAT - regressive

NATIONALISED INDUSTRIES provide a guaranteed supply of essential services.

The process of selling nationalised concerns is PRIVATISATION.

PART C - THE PRIVATE SECTOR

1 Introduction

Having seen how the public sector operates, let's now turn to the private sector. The private sector is 'private' in the sense that it is owned, not by the state or its agents, but by private individuals such as you and me.

2 Types of Private Sector Organisations

You have only to look along any high street to realise that there are all sorts of businesses in the private sector, from one man running a market stall to giant, multi-national companies.

Let's start by grouping them into four types, starting with the simplest.

2.1 Sole Trader

As its name suggests, a sole trader's business is owned and run by the owner. Any profits the business makes are his but he is also personally liable for any debts the business incurs. So, if necessary, he would have to sell his house, car and so on to pay off these debts.

2.2 Partnership

Partnerships are most often found in professional jobs such as accountants and solicitors. Obviously, to form a partnership there must be at least two of you and the maximum legal number in a partnership is twenty.

ACTIVITY 25
Time guide
3 mins

Jot down what seems to you to be one major benefit which would result from forming a partnership rather than being a sole trader.

* _____

_____

_____

There are a number of benefits.

* You have access to more money.

* You have between you a greater number of skills than you would have on your own.

* You have someone to share the decisions, worry and workload. It might even be possible to have an occasional holiday!

One major worry which you don't escape by forming a partnership is liability. This is still unlimited which means that, as with a sole trader, you have personally to pay any debts which the business incurs.

2.3 Private Limited Company

In a private limited company people whom the directors of the company approve can buy shares in the company. Legally there can be any number of shareholders above two shareholders. In order to become a private limited company you have to draw up certain legal documents (Memorandum and Articles of Association) and be registered with the Registrar of Companies.

ACTIVITY 26
Time guide
3 mins

Suppose you wanted to interest people in buying shares in your company.

What assurance do you think they would want about liability?

* _____

_____

_____

If I were them I would want an assurance that liability would be limited and that I didn't run the risk of personally having to pay the company's debts.

This is the case with private limited companies. The company has a separate legal existence from the owners and their private assets (their money, house, etc) cannot be called upon to pay the company's debts. You are only liable to the extent of your shareholding in the company.

ACTIVITY 27
Time guide
2 mins

Having assured themselves that liability would be limited, possible buyers of shares in your company would now want to know something else before investing money in the business.

Jot down what you think that would be

*

I hope we can agree that they would want to know what they were going to get for their money. I certainly would!

Shareholders in private limited companies are paid a DIVIDEND.

How much this is will depend on how many shares they have and the profits which the company makes. To see how this works, try this activity.

ACTIVITY 28
Time guide
3 mins

Elton and Newton Ltd is a private limited company valued at £6 million. The company has 4 shareholders each owning an equal number of shares. The company paid a dividend of £400,000 last year.

a) What was the value of each shareholders part in the firm?

b) How much dividend did each shareholder receive?

If the four shareholders each had an equal number of shares, the value of their shareholding was $\frac{£6 \text{ million}}{4}$ = £1.5 million.

The total dividend paid was £400,000. Shared equally between the four shareholders, this means that they each received £100,000.

ACTIVITY 29
Time guide
4 mins

Now suppose Yarm Investment Trust invests £4 million in new shares in Elton and Newton Ltd. The dividend for this year has just been announced and will total £1 million.

a) What is the total value of shares now held in the company?

* _____

b) How much dividend will each shareholder receive this year?

* _____

The total value of shares is now

the original £6 million + £4 million (by Yarm Investment Trust) = £10 million

The dividend you receive is proportional to your shareholding.

Of the total value of £10 million, the original shareholders own £6 million so they will receive 60% of the total dividend, which will be £600,000.

This gives them £150,000 each.

Yarm Investment Trust, owning 40% of the shares, will receive £400,000.

ACTIVITY 30
Time guide
1 min

What percentage of the votes at company board meetings do you think Yarm Investment Trust would have?

20% ☐

40% ☐

50% ☐

Your proportion of the votes is also proportional to your shareholding so Yarm Investment Trust would have 40% of the votes.

I hope you can see from these three activities how a private company pays out its dividend and how the control within the company can change when a new shareholder becomes involved.

2.4 Public Limited Company

ACTIVITY 31
Time guide
1 min

What do you suppose is the difference between a private limited company and a public limited company?

If you're stuck you might find the clue in the first paragraph about private limited companies on page 33.

Jot down one suggestion.

* _____

_____

The main difference is that public limited companies have shares which are sold to the general public. ICI, for instance, has over half a million shareholders. (You remember that private limited companies have shareholders who are approved by the directors.)

The ordinary shareholders are legally the owners of the company and can, if they wish, vote out the Board of Directors. Most public companies are quoted on the Stock Exchange so let's look next at just what the Stock Exchange does.

3 The Stock Exchange

The Stock Exchange is a kind of market which allows shareholders to sell their shares for cash at any time. If you'd like to know in detail how it operates you might like to take up this extension.

EXTENSION 2
page 77

ACTIVITY 32
Time guide
2 mins

Suppose you were thinking of investing some money. What do you think you might find attractive about the idea of buying shares in a public limited company which you could sell on the Stock Exchange at any time?

*

Perhaps like me, you felt that the main attraction is that you could convert your shares to cash very easily if you needed to. You may also, of course, if you bought at the right time, be able to make a profit when you sell your shares.

Providing a market for shares in public limited companies is not the only service which the Stock Exchange provides.

It also enables existing public limited companies to raise new finance through a new issue of shares and private limited companies which are growing to become public limited companies and, thereby, to raise some more money to invest in the busines.

Companies wanting to do this have to put together a great deal of information about themselves in a prospectus which is vetted by the Stock Exchange before being sent to possible investors. Major investors in public companies are the city institutions such as insurance companies and pension funds.

To show how this works, let's follow through the progress of one man with a good idea for a product called 'Sprods' from a private limited company to a public limited company.

INVENTOR OF SPRODS AND WIFE OF INVENTOR JOIN FRIEND WHO IS AN ACCOUNTANT

|

TO FORM A PRIVATE LIMITED COMPANY FOR THE PURPOSE OF MANUFACTURING SPRODS

|

THEY ISSUE SHARES TO FRIENDS AND RELATIVES AFTER EXPLAINING THE PRODUCT AND DRAWING UP MEMORANDUM AND ARTICLES OF ASSOCIATION

|

THE COMPANY TRADES UNDER THE NAME OF SPRODS LTD WITH £50,000 OF PAID-UP ORDINARY SHARES

|

AFTER A NUMBER OF YEARS SUCCESSFUL TRADING THE COMPANY HAS DEVELOPED MANY VARIATIONS OF THE SPROD AND A MAJOR EXPANSION BECOMES POSSIBLE IF EXTRA FUNDS CAN BE RAISED

|

A DECISION IS TAKEN TO FORM A PUBLIC COMPANY

|

THE COMPANY SEEKS PERMISSION FROM THE STOCK EXCHANGE COUNCIL FOR A QUOTATION

|

A DETAILED INVESTIGATION OF THE COMPANY IS UNDERTAKEN BY THE STOCK EXCHANGE

|

STOCK EXCHANGE AGREES TO GRANT QUOTATION OF SHARES

|

A PROSPECTUS IS ISSUED ASKING THE PUBLIC TO PURCHASE THE COMPANY SHARES

|

THE PUBLIC APPLY FOR SHARES AND ARE ALLOCATED THEM. SOME WILL BE PURCHASED BY THE INSTITUTIONS

|

SPRODS INTERNATIONAL PLC NOW HAS THE SHAREHOLDERS' MONEY TO INVEST IN THE COMPANY

|

THE ACCOUNTS ARE PRESENTED EACH YEAR AT THE ANNUAL GENERAL MEETING AND THE RESULTS ARE REFLECTED IN THE SHARE PRICE OF THE COMPANY

ACTIVITY 33
Time guide
10 mins

Put yourself for a moment in the position of the inventor of Sprods and his fellow directors. The Sprods Ltd has been trading successfully for a number of years as a private limited company but there isn't sufficient capital available to take up new developments which might make the company bigger and more successful.

Whether or not to form a public limited company is an important and difficult decision.

Write down two arguments in favour of going public and two arguments against.

FOR * _____

_____

* _____

_____

AGAINST * _____

_____

* _____

_____

This would probably cause us a few sleepless nights in reality.

These are probably the main arguments:

FOR

* The company could raise more funds for expansion

* If it were a public company it would have access to the Stock Exchange to raise money quickly in future if the need arise

* And if it can raise money quickly it can respond quickly to increases in demand for its products

AGAINST

* The original owners would lose overall control of the business.

* They would have to answer to a large number of shareholders each year.

* It costs a lot to issue shares to the general public.

However, although this in itself would be a difficult decision to make, becoming a public limited company isn't the only way of raising money. Let's look at some of the other ways companies can raise investment finance.

4 Sources of Investment Finance for the Private Company

The Stock Exchange has played an important role in providing finance and therefore in the development of the national economy for the last two hundred years.

However, in terms of the proportion of total commercial financing, its role has declined in recent years.

Here is a breakdown of the most recent figures on sources of finance for companies in the UK.

RETAINED PROFIT	-	59% OF TOTAL FINANCE
BANK AND OTHER BORROWING	-	27% OF TOTAL FINANCE
NEW SHARE ISSUES	-	6% OF TOTAL FINANCE
OTHER	-	8% OF TOTAL FINANCE

ACTIVITY 34
Time guide
3 mins

Which is the largest source of finance for UK companies?

* _____

I don't think there can be much doubt that the largest source of finance is retained profit.

This means the profit which a company makes which are not paid out in dividends but kept, retained, for ploughing back into the company to improve the business.

No matter how a company raises the finance, investing money costs money.

ACTIVITY 35
Time guide
3 mins

Here are the three main ways of raising finance. Jot down one cost that a company would incur raising finance by each of these methods.

(It may help to look back at the beginning of the unit when we talked about the nature of cost.)

	COSTS
Bank and other borrowing	
Issuing new shares	
Retained profits	

Perhaps you came up with these costs.

Bank and other borrowing - you have to pay interest on the funds borrowed

Issuing new shares - you have to pay a dividend to shareholders and also incur costs when you issue the shares

Retained profit - remember opportunity costs?

If you re-invest in the company you forego interest which you would have earned investing the profits in something else. Investment elsewhere might even have provided a better return than investment in the company.

Let's review what we've said about the private sector with a self check.

SELF CHECK 4
Time guide
10 mins

a) The four main types of commercial organisation operating in the private sector are:

* _____
* _____
* _____
* _____

Respond by completing each sentence with a suitable word or words.

b) Shareholders receive a _____ based on the profits made by the company.

c) A market for shares is provided by the _____ _____. This allows shareholders to sell their shares for _____ at any time.

d) A private limited company will convert to a _____ limited company to gain access to more _____.

e) The main source of investment finance for UK commercial companies is from _____ profits.

f) The _____ paid to the banks is the cost to companies associated with bank _____.

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. a) The four types of organisation we mentioned in the private sector are sole trader, partnership, private limited company and public limited company. b) Shareholders receive a dividend based on the profits made by the company. c) The Stock Exchange provides a second-hand market for shares where shareholders can sell their shares for cash at any time. d) In order to gain access to more money or funds, a private limited company may convert to a public limited company. e) We saw that the main source of investment finance in the UK for commercial companies is retained profits. f) Investing money from any source costs money. If finance is borrowed from a bank, interest has to be paid on it.

5 Summary

* Private sector commercial organisation are made up of four basic types:

  Sole Traders

  Partnerships

  Private Limited Companies

  Public Limited Companies.

* Private and Public Limited Companies issue shares.

* Ordinary shareholders are the legal owners of a Public Limited Company.

* As companies grow they often change status from private to public companies to gain access to increased funds.

* The Stock Exchange provides a market in shares and also the facility for companies to make new issues of shares.

* Main sources of finance for UK companies is through retained profits and bank borrowing.

* There is a cost to the company no matter how it chooses to raise finance.

PART D - GOVERNMENT ECONOMIC POLICY

1 Introduction

All governments, no matter what their political party, have some general economic aims which they want to achieve and they all have to use the same economic mechanisms to try to control the economy.

It's the way they use the methods at their disposal and where they put the emphasis of the economic policy which distinguishes one government from another.

In turn, their economic policy is part of a broader total policy for governing the country which will, for instance, include their policy on industrial relations. You might like to take up this extension to look at this aspect of government policy.

EXTENSION 3
page 77

2 General Economic Aims

Let's first decide what are those general economic aims which every government pursues.

ACTIVITY 36
Time guide
5 mins

Suppose you were a government minister and you were involved in designing the economic policy.

Jot down two things which you would hope your economic policy would achieve.

I've put down one to help you get started.

* full employment
* _____
* _____

Perhaps there were so many things you feel could be achieved that you hardly know where to begin.

Bearing in mind that we're only thinking in very broad terms, my list of objectives would include:

* full employment
* economic growth - which would mean maintaining or improving the standard of living
* control of inflation - which would mean prices remained fairly stable
* a sound balance of payments - which would mean that the country wasn't sliding into debt.

These are all, I hope you agree, extremely important and I haven't attempted to put them in any order of importance though perhaps we ought to give one of them, the control of inflation, a special mention.

We hear a lot about 'inflation' but what does it actually mean?

REFERENCE 3 page 79

In 'Economics Made Simple' Geoffrey Whitehead defines it as 'a situation where too much money is chasing too few goods and services so that they rise in price'.

Successive governments try to curb inflation by ensuring that the demand for goods doesn't outstrip the supply. As far as you and I are concerned, the amount of money which we have available to spend is held down one way or another. If the policy to curb inflation is successful though, we should also find that prices are held down too.

Perhaps you can see that these objectives are concerned with broad economic issues and problems - they may seem a long way removed from our own personal difficulties with making the money go round or with the similar problems we're aware of at work.

This concern with the broad economic problems which confront the country is called MACROECONOMICS and the policies which are used to deal with these problems are macroeconomic policies.

3 Fiscal Policy

Still nothing to do with us?

Well, at least once a year the Chancellor of the Exchequer presents his macroeconomic plan to Parliament.

ACTIVITY 37
Time guide 1 min

What is this plan, presented by the Chancellor of the Exchequer, called?

*

It's the Budget.

And, as you know from years of listening to how much he's going to put on the price of petrol, alcohol, tobacco etc, it affects every-one of us in some way or other.

Of course, he also talks about changes in taxes of all sorts, changes in benefits such as state pensions and child benefit and changes in things like National Health Service charges.

ACTICITY 38
Time guide
1 min

In broad terms, what is the Budget about?

* _____

You may just have said 'money' which is perfectly true. More specifically, it's about taxation and the balance between the income the government gets from taxation and the amount it is spending.

By changing this balance year to year the government can control the level of income available in the economy. This balancing act is the government's FISCAL POLICY, which is one of the two main forms which the macroeconomic policy takes.

Remember fiscal policy is concerned with balancing the income from taxation and providing services out of that income.

ACTIVITY 39
Time guide
5 mins

Here is a list of areas in which the government has a policy which we often hear discussed on the news.

Tick those which you think are examples of fiscal policy.

Income tax	☐
Defence spending	☐
Interest Rates	☐
The money supply	☐
Pensions	☐
VAT	☐
The value of the pound	☐

Income tax, defence spending, pensions and VAT are all to do with fiscal policy because they all relate to taxation or to something which is provided out of the income from taxation.

(The others are actually to do with monetary policy but we'll come to that later.)

Although the Budget isn't the only opportunity the government has to present its fiscal policy, it is the major one, so let's look in more detail at what happens in the Budget.

ACTIVITY 40
Time guide
2 mins

What do you do if you find one month that you've spent more than you have money coming in (apart from worry!)?

I think you'll probably have thought of two things:

* spend less the following month

* borrow some money to tide you over.

On a much larger scale, the government may try to do the same thing.

If the government's proposed spending plans are going to cost more than they have money coming in from taxation, they have what's called a

BUDGET DEFICIT

They try to deal with this in the same way you or I might - by borrowing to bridge the gap.

This borrowing is called the

PUBLIC SECTOR BORROWING REQUIREMENT
PSBR for short

EXTENSION 4
page 77

How the government does this if very complicated and, if you'd like to know in more detail, you might like to take up this extension.

Suffice it to say that the government borrows by selling government stock on the Stock Exchange by encouraging people to put their money into National Savings.

(It's many years since a government budgeted for receiving more income from taxation than they proposed to spend so we won't go into that here!)

We also said that, as private individuals, if we spend more one month than we have coming in, we might try to spend less the following month. The government may try something similar though, not surprisingly, it's much more complicated than just cutting down for a few weeks to pay off an overdraft!

The government may well try to reduce the deficit from what it was the previous year. Thus, if they budgeted to borrow £12 billion last year, they may plan to borrow only £8 billion this year.

ACTIVITY 41
Time guide
1 min

How much less money would there be in the economy in this case?

There would be £4 billion less in the economy.

ACTIVITY 42
Time guide
2 mins

Assuming that the government decides not to raise taxes, how can it ensure that the borrowing is kept down by £4 billion over the previous year's spending?

It can only do it by cutting the services it normally provides out of the income from taxation and thus reducing the level of economic activity in the country overall.

This is called a

DEFLATIONARY BUDGET

Suppose the government decides to do the opposite.

ACTIVITY 43
Time guide
3 mins

Suppose the government decides to increase the amount of money it is spending and thus to increase the level of economic activity in the country overall. We'll assume that it doesn't want to increase taxation.

How could the government finance its plans?

* _____

It could increase the amount of money it has available to stimulate economic activity by borrowing.

This would be called a

REFLATIONARY BUDGET

If the budget neither increases nor decreases its deficit then the budget is said to be, not surprisingly, a

NEUTRAL BUDGET

SELF CHECK 5
Time guide
5 mins

Here are some government borrowing figures which compare the current year's borrowing requirement with the previous year's.

Assuming that taxation doesn't vary from year to year, decide which of these figures will produce:

a deflationary budget
a reflationary budget
a neutral budget

BORROWING REQUIREMENT

LAST YEAR	CURRENT YEAR	TYPE OF BUDGET
£ 5 billion	£10 billion	* _____
£ 6 billion	£ 6 billion	* _____
£12 billion	£ 6 billion	* _____
£10 billion	£15 billion	* _____
£ 7 billion	Nil	* _____

Here is how I would complete that list.

BORROWING REQUIREMENT

LAST YEAR	CURRENT YEAR	TYPE OF BUDGET
£ 5 billion	£10 billion	Reflationary
£ 6 billion	£ 6 billion	Neutral
£12 billion	£ 6 billion	Deflationary
£10 billion	£15 billion	Reflationary
£ 7 billion	Nil	Deflationary

I expect any Chancellor of the Exchequer sometimes wished the decision whether to go for a deflationary or reflationary budget was as simple to make as we've made it sound. Obviously it isn't.

For one thing, the effect of the budget is only one factor which affects the economy of the country and what the government is trying to do with any particular budget may be altered by some of these factors.

A reflationary budget brings about an increase in incomes which means people have more money to spend.

ACTIVITY 44
Time guide
2 mins

Jot down one result of people having money to spend.

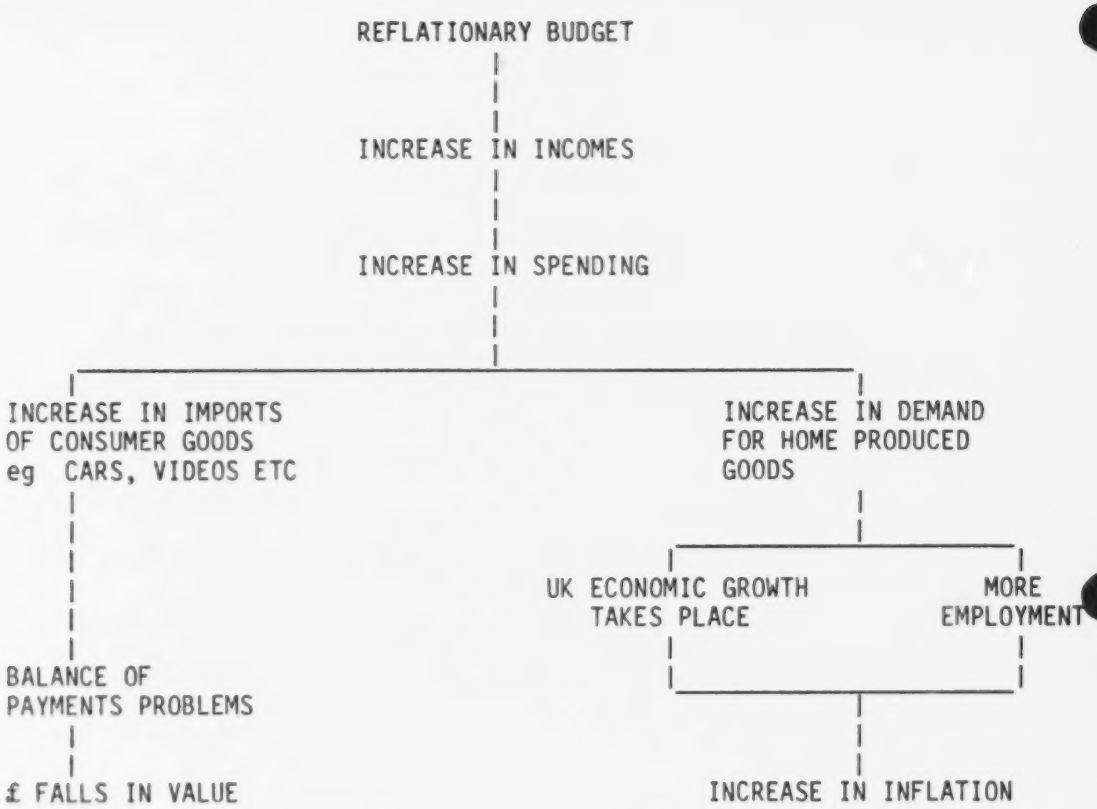
* _____

_____

_____

If people have money to spend there will be an increase in demand. This may be an increase in demand for home-produced goods or an increase in demand for imported goods such as cars and video records.

We can show what may happen if either of these demands occur by this diagram.


REFLATIONARY BUDGET
INCREASE IN INCOMES
INCREASE IN SPENDING
INCREASE IN IMPORTS OF CONSUMER GOODS eg CARS, VIDEOS ETC
INCREASE IN DEMAND FOR HOME PRODUCED GOODS
UK ECONOMIC GROWTH TAKES PLACE
MORE EMPLOYMENT
BALANCE OF PAYMENTS PROBLEMS
£ FALLS IN VALUE
INCREASE IN INFLATION

As you see, if we have to import goods much in excess of what we're able to export, we may have trouble with the balance of payments and may have to bring down the value of the pound to make our prices look attractive abroad.

If demand for home produced goods goes up, economic growth takes place and jobs are created. If the demand can comfortably be met by UK products this is fine, but if demand can't comfortably be met, prices go up and there's an increase in inflation which is harmful to everyone. If you'd like to know more about the complex subject of inflation you might like to take up this extension.

EXTENSION 5
page 78

Although taxation policy is only part of the government's economic policy, what is done to the various types of tax we have to pay can affect the decisions which each of us make from day to day.

Perhaps you can see what I mean by tackling the next activity.

ACTIVITY 45
Time guide
10 mins

Here are two lists. The first shows various actions the government can take in the field of taxation.

The second list, which is lettered a - g, shows poss ble effects these tax changes are likely to have on decisions people make.

In the square next to each statement in the first list, write the letter of what seems to you the most likely effect of the tax change.

TAX CHANGES

Increase in duty on tobacco. |__|

Increase in the rate of income tax. |__|

Decrease in the rate of income tax. |__|

Abolition of tax allowances on mortgages. |__|

Decrease in the rate burden on householders. |__|

Increase in the basic rate of VAT. |__|

Increase in Car Tax. |__|

POSSIBLE EFFECTS

a) Increase in the willingness to accept promotion.

b) Increase in the demand for houses.

c) Decline in the sale of cigarettes.

d) Decrease in the demand for petrol.

e) Increase in the demand for food and other goods which do not incur VAT.

f) Decrease in the incentive to work overtime.

g) Decrease in the price of houses.

I hope what you've said broadly matches what I'll say now about the likely effects of tax changes.

* Increase in duty on tobacco. |c|

  We are likely to smoke fewer cigarettes as a result of this tax change.

* Increase in the rate of income tax. |f|

  An increase in the level of income tax will mean the tax man will take more of the extra money we would earn doing overtime so people are less inclined to work overtime.

* Decrease in the rate of income tax. |a|

  If people can keep a larger share of their income they will be more inclined to take on the extra responsibility of promoted posts.

* Abolition of tax allowances on mortgages. |g|

  If the tax allowance on mortgages was abolished, fewer people would be able to afford mortgages so the price of houses would fall.

* Decrease of rates burden on householders. |b|

  This would have the opposite effect of the previous example. More people would want to buy a house of their own.

* An increase in the basic rate of VAT. |e|

  This would make people less inclined to buy goods which carry VAT and more inclined to buy things which don't.

* Increase in car tax. |d|

  This would mean that the cost of running a car would go up and fewer people could afford it so the demand for petrol would go down.

Perhaps you can see from this that, even when the government has decided the broad outlines of its policy, it still has to give a lot of thought to how it's to be put into action in detail because different parts of the budget affect different people in different ways.

SELF CHECK 6 Complete this statement with a suitable word.
Time guide
1 min So far we've been talking about the government's po icy for balancing taxation and spending what taxation brings in. This is called _____ policy.

The answer to this self check is here in he following words, so you'll have to check out your answers carefully. I hope you remembered the word 'fiscal'. Fiscal policy is the government's policy concerned with balancing taxation and spending the income from taxation on various services.

We said earlier that fiscal policy is one important part of government economic policy. The other part is

MONETARY POLICY

which we'll look at now.

4 Monetary Policy

Monetary policy is the government's policy for controlling the amount of money in the economy. It is achieved through the Bank of England which acts as the government's banker.

How does it do this?

It does it in a number of ways but the one which is most likely to affect us directly, at home and at work, is the control of interest rates.

ACTIVITY 46 Suppose you want a loan from a bank. You will obviously have to pay
Time guide back the sum you have borrowed but you will also have to pay some
1 min extra, usually between 10% - 13% of what you borrowed.

What is this extra sum called? _____

Why does the bank need it? _____

The amount you have to pay above what you borrowed is called interest and the banks need this to make a profit on the loan and thus to stay in business.

They, in turn, borrow money from the Bank of England and have to pay interest on their borrowing.

ACTIVITY 47
Time guide
1 min

What will happen to interest rates in the High Street Banks if the Bank of England puts its interest rate up?

* _____

_____

Interest rates in the High Street banks will go up so it will cost us more to have an overdraft or a personal loan or a car loan or any of the other loan arrangements we could make with the bank.

ACTIVITY 48
Time guide
1 min

Suppose you were going to arrange a bank loan to buy a car and reckoned that you could just about afford the monthly repayments of £120 per month.

Then you hear the Bank of England has increased interest rates and it will now cost you £127 a month. What are you likely to do?

* _____

_____

You might well decide to put off buying the car for a bit, or buy something cheaper or try to save up a larger deposit.

Whatever you decide, your demand for a bank loan is likely to be reduced.

When the Bank of England puts the interest rates up, this sort of thing happens throughout the country, it's not only individuals like you and me who think twice before taking out a bank loan: businesses from the smallest to the largest have to think long and hard about the interest they will be paying and find ways of cutting down the amount they need to borrow.

ACTIVITY 49
Time guide
3 mins

Suppose then that we, and many people like us, put off changing the car or re-fitting the kitchen or building an extension to the house because of the increased interest we would have to pay on the loan.

What happens to economic activity in the country as a whole? Jot down one suggestion.

* _____

_____

You may have mentioned a number of things - people are made redundant, factories close, things become harder to sell. As business opportunities become harder to find, businesses have to look critically at all their costs to see if they can be reduced or to see if they can find ways of producing more with the people and equipment they have available. This is often a painful process even though, in the end, some businesses benefit from the 'streamlining' of their operations.

However, we can say that, as a general rule, economic activity slows down when interest rates go up.

The High Street banks have no choice but to keep to the rates laid down by the government and the Bank of England so a tight control is kept of the banking system.

EXTENSION 2
page 77

The arrangements between the banks and the Bank of England are much more complex than we have had scope to explain here. If you would like to know more you might like to take up this extension.

The government's monetary policy affects us in all sorts of ways.

ACITIVITY 50
Time guide
4 mins

Here is a list of policy decisions any government might make which may affect any of us.

Tick those which you think reflect aspects of the government's monetary policy.

Remember, the monetary policy attempts to control the supply of money in the economy.

Raising interest rates	
Cutting income tax	
Increasing spending on health	
Reducing pay-back period on H.P loans	
Encouraging people to invest in National Savings	
Freezing prices	
Reducing spending on defence	
Increasing the pay of the armed forces	
Issuing index linked savings certificates for pensioners (Granny Bonds)	
Reducing interest rates	

I hope we can agree that these reflect the government's monetary policy:

raising interest rates

reducing the pay-back period on HP loans

encouraging people to invest in National Savings

issuing Granny bonds

reducing interest rates.

Raising interest rates and reducing the pay back period for HP loans discourage people from borrowing. Conversely, of course, reducing the interest rates makes it easier for people to borrow and thus to spend money. Encouraging people to save in one form or another means that they will tend to spend less. All these policy decisions directly affect the amount of money people decide to spend on goods and services.

Obviously, we have to spend some money. This means that some companies which supply us with goods and services are more likely than others to be worried by changes in the government's monetary policy.

ACTIVITY 51
Time guide
10 mins

Here is a list of the sort of businesses you might see looking along any High Street.

Tick those which you feel would be particularly vulnerable to changes in the government's policy on interest rates and the control of the money supply in general.

a chemist shop	☐
a green-grocer's shop	☐
a D-I-Y shop selling wallpaper, paint etc.	☐
a car showroom	☐
a ladies' dress shop	☐
an electrical goods supplier selling televisions, video players, freezers, refrigerators etc.	☐
a dry cleaner's	☐
a furniture showroom	☐

I hope we can agree that the car showroom, the electrical goods supplier and the furniture showroom would be particularly vulnerable to changes in the government's monetary policy.

These rely most heavily on people buying things on credit and the level of demand for their goods are greatly affected by changes in government restrictions on minimum deposits, maximum pay back periods and interest rates.

Although we've looked at fiscal policy and monetary policy separately, they are very much tied up with each other.

Let's look at how policy decisions in one area can lead to problems in another.

First of all, we need to refresh our memories about what we've said so far about the Budget.

SELF CHECK 7 Complete the following statement with a suitable word or words.
Time guide
4 mins

a) When the Chancellor of the Exchequer announces the Budget, he is making a statement of the government's _____ policy.

b) A Budget which sets out to encourage economic activity by spending more on services is a _____ budget.

c) To have more to spend on services the government has to increase the budget _____.

d) In order to finance increased spending the government has to _____ money.

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. a) The Budget is a statement of the government's fiscal policy which is its policy for balancing the income it gets from taxation with the services it wants to supply. b) A reflationary budget is one which encourages economic activity by increasing spending. c) Spending more on services, unless you increase taxation, means increasing the budget deficit. d) The budget deficit is financed by increased borrowing.

To have money available for borrowing, the government has to encourage people to lend. The only way it can do this is to increase interest rates so that it becomes attractive to lend money to the government.

SELF CHECK 8 What is the effect on spending of an increase in interest rates?
Time guide
1 min

* _____

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. As we said earlier, when interest rates go up, people tend to spend less - as individuals we tend to buy fewer consumer goods like cars, televisions, washing machines etc and, as companies, we tend to cut down investment which is financed by borrowing.

If people are unwilling to borrow and to buy, the extra economic activity which the reflection any budget was supposed to create, may not happen.

I hope this very simple example helps you to see how complex economic policy making can be and how attempts to solve problems in one area can often create difficulties in others.

Governments have often looked at new ways to tackle these economic problems. We'll look at one of them here since it's been used in different forms by governments over the past twenty years - the INCOMES POLICY.

5 Incomes Policy

One problem which successive governments have grappled with is how to reduce the amount of money being spent without increasing unemployment, which is often a result of deflationary policies. In order to solve this, they have tried different ways of developing an incomes policy as an alternative way of controlling inflation to the traditional fiscal and monetary policy.

When government economic policies are discussed in the papers and on radio and television, a lot of special terms are used. I've tried to avoid using too many in this unit but you might find it useful to check out what you do know about the terms used in discussing incomes policy by doing the following activity.

ACTIVITY 52
Time guide
5 mins

Here is a list of terms used in incomes policies. Below is a list of meanings, lettered a - f. Decide which meaning matches each of the terms and jot down the appropriate letter beside the meaning.

Terms

Price Freeze

Wage Control

Dividend Restraint

Erosion of Differentials

Statutory Income Policy

Pay Norm

Meanings

a limits are imposed on the levels paid to company shareholders

b highly paid workers are paid a lower increase relative to lower paid workers

c firms are not allowed to increase prices

d enforced by law

e a pay increase which everyone is allowed to achieve

f limits are imposed on wage increases

Here is how I would match up these terms and meanings. I hope you agree but don't worry if you were unsure about them. Although it's useful to know what they mean we shan't be using them much in this unit.

Price freeze - c) firms are not allowed to increase prices

Wage control - f) limits are imposed on wage increases

Dividend restraint - a) limits are imposed on the levels paid to company shareholders

Erosion of differentials - b) highly paid workers are paid a lower increase relative to lower paid workers so the difference between their rates of pay is reduced.

Statutory incomes policy - d) an income policy which is enforced by law

Pay norm - e) a pay increase which everyone is allowed to achieve.

REFERENCE 4
page 79

Perhaps we should notice that how pay differentials are affected depends on the particular kind of incomes policy, as we can see from this activity.

ACTIVITY 53
Time guide
5 mins

Suppose Jack earns £12,000 a year and Sam earns £9,000 so the difference between their salaries is £3,000.

In one year there is a limit of 3% on wage increases. This means that Jack get £12,360 and Sam earns £9,270 so the difference between them is £3,090 and relatively, Jack has done better out of the rise than Sam. The differential is increased.

Suppose instead, they are awarded a flat rate increase of £300 on their original salaries of £12,000 and £9,000.

Who has done relatively better? _____

Has the pay differential increased/decreased? _____

If there is a flat rate increase, the lower paid Sam will do relatively better than Jack and the pay differentials will be reduced.

So we can say that:

a percentage increase increases pay differentials
a flat rate increase reduces pay differentials.

Although incomes policies have worked quite well for short periods they tend to break down in the end for a number of reasons.

ACTIVITY 54
Time guide
2 mins

Jot down one reason why you, as a private individual or union member, might object to an incomes policy which had, for example, kept your rise income to 3% or 4% for several years.

_____

_____

_____

You would probably feel that your standard of living was falling or not improving as much as you had hoped and, through no fault of your own, you were finding it harder to make ends meet and to afford things which you would like.

Nobody likes to feel that their pay is being held down. But when incomes policies break down it is usually as a result of pressure from employers as well as unions or private individuals who vote against it in a general election.

ACTIVITY 55
Time guide
3 mins

Jot down one reason why you think companies may object to an incomes policy which has been in force for some time.

* _____

_____

_____

If people are not able to spend as much as they had hoped it becomes harder to sell goods and companies may find that their profits are falling as a result of an incomes policy or, at least, are not reaching the levels they had expected.

They may also feel that, if they are not free to offer salaries of their own choosing, they will have difficulty attracting the people they want to work for them.

Although incomes policies have only had limited success in the past, there is no reason to suppose that the present and future governments won't continue to use them in some form or other.

So we've seen that the government uses a 'policy mix' of

fiscal policy

monetary policy

incomes policy

to try to deal with the enormously complex problems of the economy. How successful various governments have been is largely a matter of political opinion and will probably always be so.

Let's review this section on government policy with a final self check.

SELF CHECK 9 a What are the four main general economic aims of any government?
Time guide
10 mins

* _____

* _____

* _____

* _____

b _____ policy deals with the major and far-reaching problems of the economic system. It comprises a fiscal policy and a monetary policy.

c Fiscal policy deals with the balance between _____ and _____ _____.

d We hear the main statement of the government's fiscal policy in the _____.

e A deflationary budget occurs when the budget deficit is _____ this year than last.

f The control of _____ policy is undertaken by the Bank of England.

g Companies and private individuals will _____ their demand for loans when interest rates increase.

h An incomes policy aims to control the money in people's pockets without creating more _____.

The answer to this self check is here in the following words, so you'll have to check out your answers carefully. a) The four main economic aims of any government are to create economic growth, price stability, full employment and a sound balance of payments. b) The far-reaching economic problems of the country are dealt with by the macroeconomic policy which comprises fiscal policy and monetary policy. c) Fiscal policy deals with the balance between taxation and government spending. d) The Budget is the main instrument of the government's fiscal policy. e) A deflationary budget occurs when the budget deficit is smaller this year than last. f) The Bank of England undertakes control of the monetary policy. g) If interest rates rise we tend to reduce our demand for loans. h) The aim of an incomes policy is to reduce the amount of money people have available to spend without creating more unemployment.

6 Summary

Some of the objectives of government economic policy:

to encourage economic growth

to achieve price stability

to create full employment

to ensure a sound balance of payments

Macroeconomic policy comprises:

Fiscal policy

Monetary policy

FISCAL POLICY - the control of taxation and government spending. The main instrument of fiscal policy is the budget.

MONETARY POLICY - the control of the supply of money in people's pockets and bank accounts. The main instrument of monetary policy is bank interest rates, controlled by the Bank of England.

INCOMES POLICY - government policy to control the amount of money people earn and spend without creating unemployment. It reinforces fiscal and monetary policy.

PART E PERFORMANCE CHECKS

1 End Check

Time guide 60 mins

You may now review your understanding of the Unit as a whole by completing this group of questions. DON'T GUESS THE ANSWERS - if you're not sure, flick back into the unit and check before responding.

If you are still unsure then put a question mark against your response before proceeding.

TRUE/FALSE

1 Wants exceed the resources available to satisfy them. _____

2 The UK economy is a free market economy. _____

3 The income from taxation must always equal the total of government spending. _____

4 The UK tax system is essentially a progressive system. _____

5 The National Health Service is a public corporation (nationalised industry). _____

6 A public limited company must make its shares available to the general public. _____

7 Fiscal policy deals with the setting of bank interest rates. _____

8 A deflationary budget occurs when the income from tax is greater than the total of government spending. _____

COMPLETION

Respond by completing each sentence with a suitable word or words.

9 The cost of purchasing anything has two aspects. The first is the money paid and the second is the item you can no longer buy, this is called the _____ _____.

10 A _____ economy is said to be inefficient because bureaucrats are not qualified to make choices on behalf of the general population.

11 V.A.T. is an _____ tax because it is levied not on the income of the tax payers but on _____ and _____ provided by individuals.

12 A public corporation is another name for a _____ _____, which is one of three types of organisation which control the services provided by the public sector. The other two types of organisation are controlled by _____ and _____.

13 Shares in a private limited company are offered to _____, whereas shares in a public limited company are offered to _____.

14 The main source of investment finance in the UK comes from _____ _____.

15 A reflationary budget occurs when the government puts more _____ in people's pockets by increasing its _____.

16 The level of interest rates are raised to individuals and companies from _____.

MULTIPLE CHOICE

Respond to each question by putting a mark against the ONE answer which is most correct.

17 In a planned economy:

a) free market forces operate

b) some firms may gain monopoly control of a free market

c) the State is free to allocate resources as it sees fit

d) black markets are most unlikely to arise

e) the State is likely to pursue a policy of denationalisation

18 The opportunity cost of a firm increasing the dividend it pays to shareholders is:

a) lower retained profit

b) lower income tax

c) lower output

d) lower borrowing

e) greater trade union militancy

19 The most important source of finance for investment for British industry is:

a) selling shares

b) borrowing from banks

c) retained profits

d) new issues of shares

e) Government grants

20 A 'limited' company is where:

a) shareholders in the firm are not liable for the debts of the firm

b) profits are shared out only between certain 'limited' shareholders

c) the firm is restricted in the area in which it can operate

d) the directors are not responsible to their shareholders

e) the firm is likely to be nationalised

21 Which of the following are examples of public corporations?

1) British Steel

2) National Health Service

3) British Rail

a) 1) alone

b) 2) alone

c) 3) alone

d) 1) and 3)

e) 1), 2) and 3)

22 Harry Brown pays £500 in tax if he earns £5,000 per year, £2,000 in tax if he earns £10,000 per year and £5,000 in tax if he earns £20,000 per year. This is an example of:

a) the redistribution of wealth

b) a progressive tax

c) VAT

d) a direct tax

e) a regressive tax

23 Which of the following would be classified a fiscal policy?

a) increasing VAT rates

b) introducing a prices and incomes policy

c) raising interest rates

d) easing hire purchase restrictions

d) supporting the value of the pound

24 Rates are:

a) taxes on a company's profits

b) benefits which are paid to people who have lost their jobs

c) taxes paid to central Government

d) a tax on property

e) often known as a 'gift' tax

END CHECK - Checkout

Audio Tape Side 2

The answers and explanations for these End Checks are on Side 2 of our Audio Tape. Have your responses with you as you play this tape. As you listen you can check out how well you have done and make notes as you proceed.

2 Tutor Check

Time guide 60 mins

Read the following case incident, then deal with the accompanying questions.

David Taylor is a supervisor at Lord Rex Ltd, a well-established producer of up-market mens clothes. Over the past two to three years the company has made 20% of its work force redundant as a result of the introduction of new more modern machinery and also because it lost some of its markets to highly efficient continental clothes manufacturers. With the introduction of the new technology and more aggressive marketing the company seems to be well on the way to re-gaining much of its lost markets and has just announced a 50% increase in profits for the last trading year. The company awarded its work force a 6% pay rise last year which was broadly in line with the current rate of inflation.

David supervises a group of 30 workers who are a mixture of production and ancillary workers. Colin Fletcher is the shop steward in their part of the production area.

The Budget statement has just been made and the Chancellor has announced an increase of 1% on VAT and increases in the tax on petrol, tobacco and alcohol. No increase in income tax has been announced.

One of David's production operators, Gillian Allison, approaches him on the shop floor and the following conversation takes place:

Gillian: I see the Chancellor has done it again - increased taxes. I don't know how they can justify increasing taxes again. What do they spend all the money on? Colin reckons it's always the ordinary worker who gets hit, they never hit the rich.

David: There are many areas which need money spending on them, Gillian, you must know that. And the money has to come from somewhere. Would you rather he had increased income tax?

Gillian: I don't see why he should have increased tax at all. In any case, Colin has just told us that the company profits increased by 50% this year and we only got a 6% rise. Why doesn't the government increase the tax on companies? This company can afford it after laying off all those people over the past three years. Colin reckons it's time more companies were nationalised. Then the workers could share in the profits instead of paying big dividends to rich shareholders.

You only need to write ONE or TWO sentences against each question.

1) What points should David Taylor bring out to explain the need for the government to raise taxes?

2) What should David say to Gillian to explain the need for companies to make a good profit?

3) What could David say to explain why companies cannot pay excessive wage rises?

4) What else could David say to try and convince Gillian that taxes such as those on alcohol, tobacco, petrol etc need to be raised each year in line with inflation.

5) How should he explain the reasons why some organisations are nationalised and some are not?

6) What could he do to clarify to Gillian the role of the shareholder in a limited company?

Send to tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

3 Work Based Project

Time guide 60 mins

You will work for one of the following types of organisation:

a) Unincorporated business (Sole Trader)

b) Partnership

c) Private Limited Company

d) Public Limited Company

e) Public Corporation (nationalised industry)

f) Public Service

Answer the following questions in relation to the type of organisation for which you work. Use your own knowledge of the situation but also draw on the experience and knowledge of your colleagues and if possible at least one of your managers. Remember you are looking at the questions from the point of view of the whole workplace not that of an individual working there.

1 What problems has your workplace encountered in surviving the economic problems of the recent past?

2 How has the organisation tried to overcome the problems encountered?

3 What economic policies put into action in the next two to three years would help the organisation improve its present position?

You only need to write THREE or FOUR sentences against each question.

Send to tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

PART F UNIT REVIEW

1 Return to Objectives

Having completed your work on this unit, let's review how you feel about each of our four opening objectives. I will repeat them here and add comments to each.

You should now be able to

* IDENTIFY HOW OUR NATIONAL ECONOMY WORKS

Our important focus was that societies are always having to make economic choices. Different societies choose different means to achieve their economic objectives. The U.K has chosen a mixed economy as opposed to a planned or a free market economy. The mix between private and public will always be a matter of debate but the basic structure is not likely to change. Now to our second objective.

You should now be better able to

* EXAMINE THE CONTRIBUTIONS MADE TO THE ECONOMY BY THE PUBLIC AND PRIVATE SECTORS

You should now be well aware of the extent of the public sector in the UK, who controls the various aspects of this part of the economy and the differences between a public corporation and a public service. The provision of public services are split between central and local government although central government does have overall control and can restrict local government decision making. The private sector is 'private' in the sense that it is financed and owned by private individuals. The main objective of a private company are to serve its shareholders and it does this by producing a product or a service which it sells at a profit, out of which it will pay a dividend to its shareholders. Now to our third objective.

You should now be better able to

* IDENTIFY HOW THE ECONOMIC DECISIONS OF GOVERNMENT AFFECTS THE OPERATION OF BUSINESS ORGANISATIONS

The government controls the economy through its fiscal policy - control of taxes and public spending - its Monetary Policy - control of interest rates - and sometimes through other policies such as Prices and Incomes Policies. The way in which this control is carried out is through such mechanisms as the Budget and the setting of interest rates via the Bank of England. By the use of these mechanisms the government can increase or decrease the level of demand for goods and services within the economy. Now to our final objective.

You should now be better able to

* IDENTIFY HOW WE ARE AFFECTED BY THE ECONOMIC POLICY DECISIONS MADE BY GOVERNMENT

By its management of the economy and the control of demand the government is continually modifying its taxation and interest rate policy. By reducing the tax burden on the private individual they are increasing your freedom to spend your money how you wish. Conversely by increasing the tax taken from the individual the government is increasing its ability to spend in areas it believes are important. By increasing interest rates the government makes it more difficult for both the company and the private individual to borrow money to spend or invest. The government can also use taxation policy to discourage the consumption of products which are seen to be harmful such as tobacco or alcohol. This not only has an impact on the individual who wishes to buy such products but also the companies which produce the products.

I hope that the work you have done was enjoyable and useful enough to encourage you to continue in your studies.

2 Extensions

I recommend that you take up as many of these extensions as you can. They will further increase your understanding and interest. You will also be able to check out a number of the ideas that I mention in the Unit. The extra time and effort will prove very worthwhile.

EXTENSION 1

Book: The Finance of Local Government - 6th Edition

Author: N P Hepworth

Publisher: George Allen and Unwin

Contains some useful chapters on the organisation and finance of local government.

EXTENSION 2

Book: Economics made Simple

Author: Geoffrey Whitehead

Publisher: W H Allen

Chapter 20 is a useful chapter on Financial Institutions.

EXTENSION 3

Book: The Choice Series: Industrial Relations in Action

Author: John Stirling

Publisher: Northern Regional Management Centre

EXTENSION 4

Book: Illustrated Economics

Author: Peter Donaldson

Publisher: B.B.C.

Chapter 8 explains in reasonably clear and simple language the functions of the Public Sector Borrowing Requirement (P.S.B.R.)

EXTENSION 5 Book: Illustrated Economics

Author: Peter Donaldson

Publisher: B.B.C.

Chapter 1 of this very effective publication will help you to understand this very important subject.

I should warn you that economics books don't always make easy reading and may soon become dated. I've tried to select extensions which are still very relevant and fairly readable.

If this unit has aroused your interest in economics I suggest that you take a daily or Sunday newspaper which carries detailed information of the economic situation. You'll probably learn far more this way than ploughing your way through an economics text book - I do.

These extension opportunities can all be taken up via your Support Centre.

They will either have the materials or will arrange that you have access to the materials. However it may be more convenient to check out the materials with your Personnel or Training people at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become aware of your interest and you can involve them in your development.

3 References

REFERENCE 1	Book:	Modern Economics
	Author:	J Harvey
	Publisher:	MacMillan Press
REFERENCE 2	Book:	Economics of the Real World
	Author:	Peter Donaldson
	Publisher:	BBC/Pelican
REFERENCE 3	Book:	Economics Made Simple
	Author:	Geoffrey Whitehead
	Publisher:	W H Allen
REFERENCE 4	Book:	Illustrated Economics
	Author:	Peter Donaldson
	Publisher:	B.B.C.

I should warn you that economics books don't always make easy reading and may soon become dated. I've tried to select extensions which are still very relevant and fairly readable.

If this unit has aroused your interest in economics I suggest that you take a daily or Sunday newspaper which carries detailed information of the economic situation. You'll probably learn far more this way than ploughing your way through an economics text book - I do.

These references can all be taken up via your Support Centre. They will either have the materials or will arrange that you have access to the materials. However it may be more convenient to check out the materials with your Personnel or Training people at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become more aware of your interest and you can involve them in your development.

If you do wish to make use of these references then don't think that you must read them right through. Just dip into them for a slightly wider treatment of the topic raised by the unit.

I should warn that the language and style of the writing is often difficult to cope with. So don't struggle with it too much. Do what I do when in difficulty, put the book back on the shelf and find a better one!

THE CHOICE SERIES

PRINCIPLES AND PRACTICE OF SUPERVISION

11 Needs and Rewards
12 Enriching Work
13 Workteams
14 Team Leading
15 Leading Change
16 Organisation Systems
17 Supervising in the System
18 Supervising with Authority
19 Workplace Control
20 Taking Decisions

TECHNICAL ASPECTS OF SUPERVISION

30 Looking at Figures
32 Using Graphs
33 Method Study
34 Easy Statistics
35 Quality Control
37 Controlling Output
38 Value Analysis
39 Quality Circles
40 Computers
41 Stores Control
42 Managing Time
43 Descriptive Statistics
45 Supervisors & Marketing

COMMUNICATION

60 Communicating
61 Speaking Skills
62 Writing Skills
63 Communication Systems
64 Orders and Instructions

ECONOMIC AND FINANCIAL ASPECTS

70 Accounting for Money
71 Control via Budgets
72 Cost Reduction
73 Wage Payment Systems
74 The National Economy

INDUSTRIAL RELATIONS

80 Training Plans
81 Training Sessions
82 Discipline and the Law
84 Health and Safety
85 Industrial Relations in Action
86 Equality at Work
87 Hiring People
88 Supervising and the Law